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ABSTRACT

Public radio can survive cutbacks in federal subsidies, but only if these funds are reduced no more rapidly than public radio can replace them with newly-generated audience-sensitive revenues (listener support and underwriting). A model developed in this analysis suggests a three-to-five year "glide path" to zero federal support. Public radio has been moving away from a subsidized economy toward a user-based economy for 15 years. Direct reliance on listeners and underwriting has caused certain changes in the very nature of the medium. Cutbacks in federal subsidies will accelerate changes already well underway. Certain vestigial privileges and mandates inherent in a subsidized economy are being displaced by the responsibilities and imperatives of a user-based economy. Meeting these responsibilities requires that public radio preserve the assets and enhance the endeavors that make it the valued public service that it is. Now more than ever it must serve significant audiences with significant programming--programming that is worth listening to and worth supporting. (Contains 8 graphs.) (Author)

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Can Public Radio Replace Federal Funds with Audience-Sensitive Income?

It can, but only if it focuses on its public service mission, protects critical assets, and fosters the characteristics that make its service to the public possible — and worth supporting.

by David Giovannoni

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If it doesn't kill you, it will make you stronger.
— saying

Audience-sensitive income is the combination of listener and underwriting support. Since 1987 it has been the single largest source of public radio revenue. It is the only source of revenue that has been increasing consistently over time, out-pacing both audience size and inflation. It is the only source of revenue that puts the responsibility of payment directly on those who use the service. Many believe it is the only source of revenue with any serious future.

Can public radio count on listeners and underwriters to replace federal funding? How long might this take? What issues must public broadcasters address to make it happen? What choices must we make? And what assets must we preserve and enhance to ensure public radio's future?

Summary:

Public radio can survive cutbacks in federal subsidies, but only if these funds are reduced no more rapidly than public radio can replace them with newly-generated audience-sensitive revenues (listener support and underwriting). A model developed in this analysis suggests a three-to-five year "glide path" to zero federal support.

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Accelerating on the Economic Autobahn

Public radio has been distancing itself from public funds rather steadily over a long period of time. The drive continues to this day and shows every sign of accelerating.

Certain milestones have already been passed — exactly when depends on one's point of view. One perspective aggregates federal, state, and local tax-based monies into a single "tax-based" sum and compares it against all other revenues (top graph).

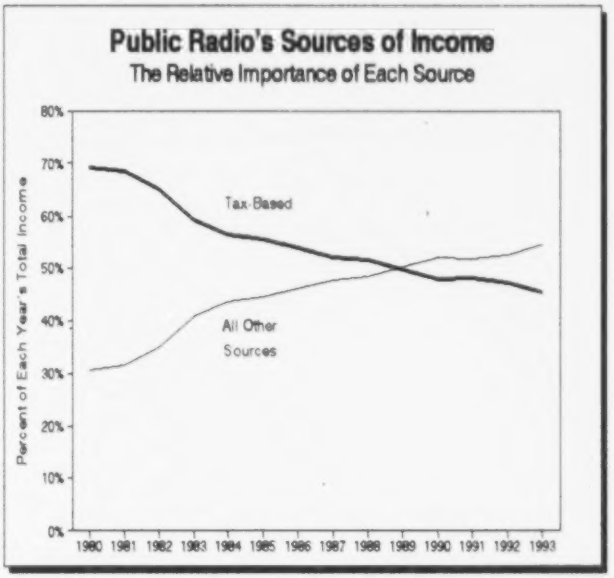
1989 is the milestone year in this view, when tax-based sources contributed less than half of public radio's revenues for the first time.

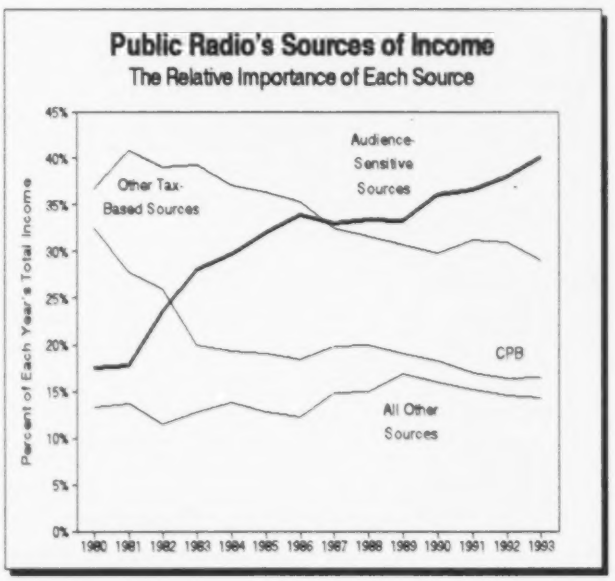
Perhaps a more meaningful point of view tracks the two major components of the "tax-based" sum separately — federal funds distributed through CPB, and other funds from tax-based sources (state and local governments, public universities, and so forth). Similarly, the key "audience-sensitive" revenues (listener support plus underwriting income) can be removed from the "all other sources" remainder (bottom graph).

From this perspective 1987 is the pivotal year in which audience-sensitive sources of income became the single largest funder of public radio.

No matter how one looks at it, public radio relies less on federal support today than it ever has. At last count (fiscal 1993) federal funds channeled through CPB accounted for one-in-six dollars available to public radio (16 percent). Back in 1980 they accounted for two-in-six dollars (33 percent).

Certainly any reduction in federal support will be unwelcome by public radio and the millions of Americans who listen to it each week. However, such a reduction will simply hasten a well-established trend. Public radio's operation and fate will be drawn more closely to listeners than ever.





Public Radio's Shifting Economic Foundations

The economic foundations of public radio are shifting. Perched atop these foundations, public radio's very attitude shifts as well.

Today our industry is funded in greater part by the people and institutions we serve—listeners, underwriters, and licensees—than by their elected representatives. Public radio was once subsidized almost fully by public, tax-based monies. Today, while public monies are still critical to its operation, public radio now relies most heavily on other sources of support. The balance tipped long ago.

- In 1987 audience-sensitive sources of income —listener support (from memberships) and business support (from underwriting)— combined to became the single largest funder of public radio.

- Two years later, in 1989, tax-based sources contributed less than half of public radio's revenues for the first time in public radio's history.

Although conceptual milestones in one sense, in another sense these years were no different than any others. Tax-based support has been in constant decline throughout the 1980s and into the 1990s. The most recent reductions in federal support will simply accelerate this shift.

By the time the proposed federal cuts are fully implemented, well over half of public radio's revenues will be supplied by the audience-sensitive sources of listener support and underwriting alone. State and local governments will provide the only tax-based support. Private universities, endowments, and special fundraising activates will pay for most of the remainder.

Public Radio's Shifting Attitudes

This shift in funding has already changed the nature of public radio in some subtle and not-so-subtle ways. For instance, 15 years ago most stations did not ask listeners for memberships or businesses for underwriting; few purchased or undertook their own programming or audience research; none had direct financial influence over the programming decisions of their networks.

The federal government's withdrawal from direct financial support of public broadcasting will speed these and other changes within public radio. No area or activity will be spared.

Public radio's shifting economy is well-documented. Here we establish the relationships between the sources from which public radio gets funds and the public service these funds are used to provide. We explore whether public radio can replace lost federal funding with audience-sensitive sources. And we identify key assets that public broadcasters must not only fight to protect, but resolve to enhance through purposeful investment of diminishing resources.

NO AREA OR ACTIVITY WILL BE SPARED

After working through the ramifications of these changes one is tempted to make certain predictions.

** Station development efforts are likely to double within a few short years.*

** Programming, research, and other activities that provide or enhance audience service will also rise to greater importance at stations.*

**The economic parsimony of networking will make national programming more important to stations.*

** Networks will find their strongest programming to be worth more to stations; other programming will be worth less.*

** Networks will focus their underwriting efforts away from boutique programs to core services.*

** The use of non-local programming by stations will also be accelerated by the ongoing cultural redefinition of "community"--from a geographic to an interest locus.*

** The economic of networking will urge sharenets and commercial competitors into the marketplace.*

** The number of licensees will decline as mergers reduce management and ovehead costs. Mergers will also preserve service to smaller communities--both geographic and interest-based.*

**Distributors and producers will realign their rate structures to more closely reflect the number of people served by their programming.*

** Local production of news and other costly programming will decline as resources are redirected toward programming offering greater returns.*

From Subsidy to Self-Sufficiency

The Impact of Economics on Public Radio's "Mission"

Public radio's movement away from a subsidized economy affects its "mission" in both positive and negative ways. Awareness of these influences will help public broadcasters address them accordingly.

The Subsidized Past. In 1967 the Carnegie Commission on Educational Television, and the Public Broadcasting Act that it inspired, recast "educational" broadcasting into "public" broadcasting and granted it certain privileges to protect it from the tyranny of "the ratings." It sought to insulate non-commercial media from pressures that, in the Commission's perception, had caused commercial broadcasting to devolve into Minow's "vast wasteland" or Murrow's "wires and lights in a box."

The economics of commercial broadcasting were blamed for this state of affairs. The larger the audience for a program, the more money a sponsor would pay to be associated with it. When the size of the audience determined the broadcaster's bottom line, programming of quality and intelligence—programming that looked hard at important issues—programming that challenged citizens and their elected officials to be and to do better—was seen to suffer as a direct result.

The prescribed solution was subsidization—a unique set of tax-based economics that removed the link between funding and use. Public broadcasting was to measure its achievement in terms of adherence to values and not, as in commercial media, on the number of people who actually heard or viewed its programming.

Changing Times. Public broadcasting has been buffeted during the last 30 years by the same forces prevailing on other public sector institutions. Universities have shifted from "patron-driven" to "consumer-driven" services. Hospitals and other health care providers have learned that more choices invoke greater competition, a demand for efficiencies, and the need to increase the involvement of those being served.

Replace "students" and "patients" with "viewers" and "listeners" and it sounds very much like public broadcasting's evolution in a fragmenting media environment.

Public Service Sets Us Apart. Swept up in the general trend toward greater accountability to those being served, can public radio maintain its non-commercial values in a commercial marketplace? Can it fulfill its mission while asking those served to pay for it?

Perhaps, but only if it remains in the business of public service. Public service demands not only a significant audience, but programming of significance. Both are necessary, neither alone is sufficient.

The Economics of Public Service. Recent reductions in federal funding will accelerate public radio's long-increasing reliance on listeners and underwriters. Many in our ranks warn against succumbing to the "commercial" pressures borne by underwriters. They are right to be concerned. We are right to be vigilant.

But those who fear the audience's impact understand neither the listener nor the mission of public radio. Public radio cannot afford to serve audiences of any size with insignificant programming, just as it cannot afford to serve insignificant audiences with any sort of programming.

The public will support public radio only as long as it provides a service worth supporting. Diminish this public service—pattern it after the private services that permeate the airwaves—and public radio will lose both its reason and its means to exist.

What Causes Audience-Sensitive Income?

Public radio has grown from a $120 million enterprise in 1980 to a more than $400 million industry in 1993. During this same period it has more than quadrupled the number of people listening at any given moment.

These two facts are not unrelated. Public radio's greatest source of revenue growth during the last 15 years has been from ***audience-sensitive*** sources—the combination of listener support (from memberships) and business support (from underwriting). Today it generates more than 40 percent of its income from listeners and businesses—up from 17 percent in 1980.

Listener and underwriting income is "audience-sensitive" because it relies on both the ***size*** and ***satisfaction*** of the audience.

The importance of audience size is obvious: the greater the number of people served, the larger the potential pool of supporters. And although most stations don't set underwriting rates on a strict cost per thousand basis, the amount they can charge for an announcement—indeed, the ease of selling underwriting—is closely linked to the number of people who hear the spot.

The importance of audience satisfaction is less obvious but just as consequential. People who consider public radio programming important in their lives are more likely than others to support it with financial contributions.

In short, public radio's ability to generate audience-sensitive revenues begins with producers, distributors, and programmers delivering ***significant programming*** to ***significant audiences***. It culminates with membership and development professionals realizing the financial potential of this audience service.

Audience-Sensitive Income and the Future of Public Radio

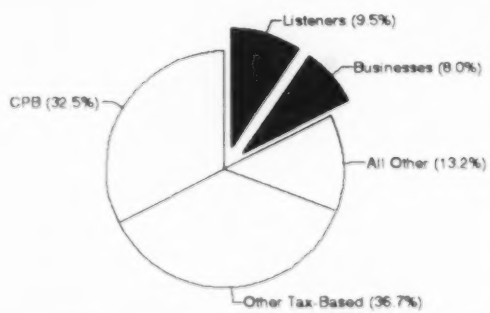
Is it realistic to assume that listeners and underwriters will replace lost federal funding? Is public radio still so nourished by federal funds that it cannot survive their loss?

When the time for public hand-wringing and political lobbying is passed, public radio will need to turn inward to determine its most appropriate response. The decisions we make will determine the answers to these questions.

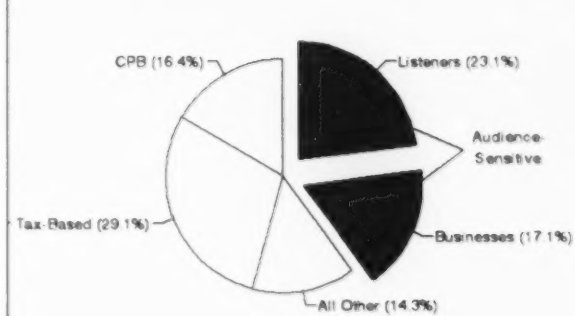
Fortunately, public broadcasters have full control over the assets that cause audience-sensitive revenues. It's in our power to make public radio the best and most publicly-supported service possible.

Programming will need to become even more significant to even larger audiences. Developers will need to become even more effective at turning listeners and businesses into supporters. How much more significant? How much more effective? Let's take a closer look.

Sources of Public Radio Support in 1980



Sources of Public Radio Support in 1993



Serving Listeners

Public radio can expect to serve more listeners each year into the next century. At last count nearly nine percent of all Americans listen to CPB-supported stations each week. This number is expected to grow to more than 10 percent by the end of the decade.

Population growth and geographic expansion into unserved areas will contribute minimally to this growth. At least two-thirds of all audience gained between now and the end of the century will be a direct result of improvements in programming and facilities at existing stations.

Improvements center around availability, accessibility, and quality concerns—three areas that public radio must preserve and strengthen if audience service is to grow at past rates.

Availability. Public radio can't be heard unless a station provides the service. More than 90 percent of all Americans can receive at least one public radio station, and most Americans can hear at least two. Public radio must preserve and enhance these existing facilities if it is to remain a viable public service.

Multiple facilities in major population centers are particularly important. This is where most Americans live and where the delivery of terrestrial radio signals is most effective.

Public radio would do well to shun the "minimal overlap" imperative urged by those who controlled the old subsidized economy, and follow through on the multi-service paradigm that will make it much more viable in the highly competitive media environment.

Accessibility. Programmers should strive to improve the effectiveness of their schedules. Their scheduling and presentation of programming should make the service even easier to find, easier to recognize, easier to listen to — in short, more accessible.

A worthy goal is to make theirs the preferred radio service for those to whom it appeals.

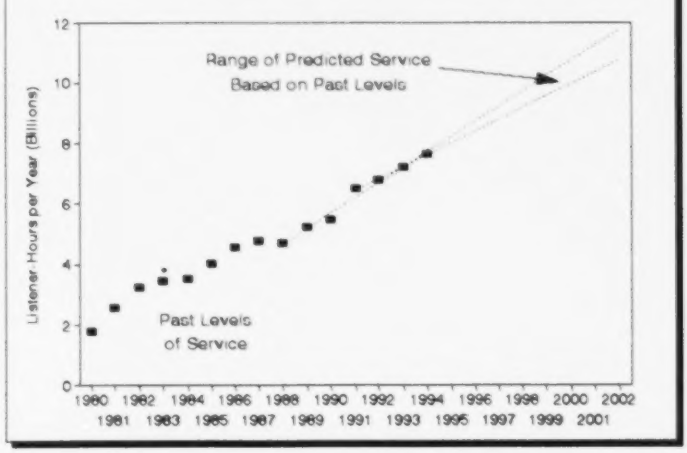
Quality. A significant audience without significant programming is not much of a public service. Listeners are emphatic: the "quality" of public radio is what sets it apart, makes it worth listening to, makes it worth supporting.

Even—especially—when resources are in decline, public radio cannot afford to sacrifice the very quality that sets it apart, makes it worth listening to, makes it worth supporting.

One aspect of quality often taken for granted is program development and innovation. Like any product, radio programming has a natural life span. It loses its potency when not rejuvenated. Public radio can survive for a while on the programming it now has; but it must maintain its ability to develop new programming, and to revitalize the old, if it is to be viable in the future.

The economic efficiencies of networking are inescapable and especially compelling when there is less money to spend on programming. Strong national programming is an efficient investment that yields big returns in quality. Strong local programming made available nationally is also an efficient way to maintain quality.

Public Radio's Ability To Serve Listeners



Converting Listening into Audience-Sensitive Support

Concurrent with its efforts to serve larger audiences with more significant programming, public radio must also enhance its conversion of listeners into supporters, businesses into underwriters.

The trend is very promising. Audience-sensitive revenues have been growing faster than listening and out-pacing inflation for the last 15 years. There are a number of reasons for this.

•Development efforts have become the rule rather than the exception at stations. The upward growth of audience-sensitive revenues has been bolstered by stations undertaking development efforts for the first time.

•Listeners and underwriters value public radio now more than ever (see next page).

•Developers are two-to-three times more effective at realizing this value than in the early 1980s.

Can we assume that public radio's development efforts will continue to out-pace inflation and audience growth? Clearly there will be little boost from first-time fund raisers now that most stations are pursuing development activities.

Public Radio's Ability to Convert Listener Service Into Audience-Sensitive Support

Fortunately, all other signs are quite positive. The returns per listener-hour show every sign of continuing upward at the station level. Listeners are responding positively in the most recent on-air campaigns to the challenge of replacing lost federal funds with their own. Developers are becoming even more effective at developing financial support.

But as with audience, we'd be betting the farm to assume that this trend will just naturally increase. Public broadcasters must implement and build on current knowledge to make their development efforts even more effective, their listeners even more responsive.

•Position public radio. Address its value and benefits in all communications, on-air and off.

•Build a lifetime relationship. Acquire new members with the intent of retaining them.

•Increase the value of the average member. Ask more often, offer more in return.

•Raise the value of average pledge. Ask for more, offer more in return.

•Continue on-air fundraising research. Make pledge drives more effective and less intrusive.

•Continue off-air fundraising research. Make direct mail, telemarketing, and other outreach more effective.

•Create economies of scale. For instance, cooperate in the design, production, and processing of direct mail; explore the feasibility of centralized pledge-taking facilities.

•Raise the price of avails where demand exceeds supply.

•Relax underwriting regulations and other restrictions. Remember, however, that listeners adamantly eschew commercials and commercialism in their public radio broadcasts.

Who Pays to Serve One Listener for One Hour?

The Value Placed on Public Radio by Those Who Pay for It

Most broadcasters know what it costs to operate their stations. Most know how many people are listening at a given time. But most don't know what it costs to serve one listener for one hour.

The cost of serving one listener for one hour illuminates the underlying dynamics of funding. It frames the input (cost) in terms of the output (service), and in so doing it gets to the heart of the value placed on the service by those who pay for it.

It's like fueling an automobile. Most people know the price of a full tank of gas. But what is the ***value*** of gas? What is it worth to travel one mile? Similarly, what is it worth to serve one listener for an hour, or to be served as a listener for one hour?

In 1993 the public radio system spent $408 million, or about $62 thousand per hour. (We use an 18-hour broadcast day to conform to audience measurement standards.) Arbitron estimates that public radio served about 1.1 million listeners in an average hour in 1993.

Now divide the input by the output. In 1993 public radio spent 5.7 cents to serve one listener for one hour. (This national figure varies widely across stations.) Who pays this 5.7 cents, and how has it changed over time? In 1993:

- Federal dollars channeled through CPB covered less than a penny of this cost (.9 cents).

- Other tax-based sources, such as state governments, public universities and other educational institutions covered 1.7 cents, or double CPB's contribution.

- The .8 cents from other sources, such as private universities, endowments, and special fund-raising activities, nearly matched CPB's contribution.

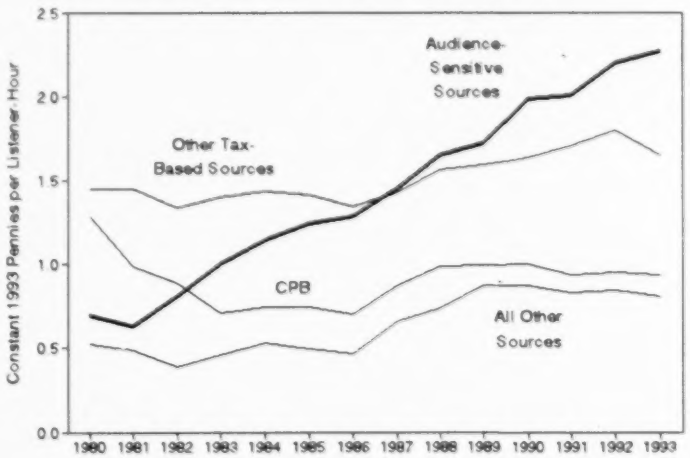
- Since 1987 audience-sensitive income has been public radio's single most important source of support. Forty percent of the system's income came from listeners and underwriters in 1993, and today this figure may reach 45 percent.

Most notable is the consistent and continuing ascendence of audience-sensitive income. Serving a listener for an hour has gotten two (inflation-controlled) cents more expensive during the last ten years; audience-sensitive income has more than offset the increase.

Again, interpreting this in terms of value, public radio has become much more valuable to its users and relatively less valuable to others.

Support of Public Radio's Service

Who Pays to Serve One Listener for One Hour



Public radio provides more than four times the public service it did in 1980; yet no benefactor save one has raised its "reward" per unit of service. CPB hasn't paid more than a penny since 1980. Other tax-based sources have been hovering around one and one-half cents for years.

It's as if tax-based sources are somehow limited in their ability or willingness to support public radio. Perhaps this is because these subsidies are relatively insensitive to public service. The greatest reward for improving public service has come directly from people who use and value this service, and from those who wish to reach these people through underwriting.

How Much, How Soon?

How much audience-sensitive support is needed to replace the $70 million CPB is investing in public radio in 1995? The answer is more than $70 million, as it takes money to make money.

Public radio's fundraising efficiency compares favorably to other non-profits'. It currently spends about 25 cents to earn a dollar of audience-sensitive support. At this rate it must raise an additional $93 million to net $70 million.

Added to the more than 200 million audience-sensitive dollars that public radio is earning in 1995, this totals about 300 million current, audience-sensitive dollars. For every dollar now earned from members and underwriters, public radio will have to raise another 50 cents to replace CPB support.

The graph below projects a range of fundraising estimates for the next few years. By drawing a line from $300 million to the predicted growth paths, it suggests that audience-sensitive revenues may replace CPB support in three to five years — but only if certain key assumptions are met.

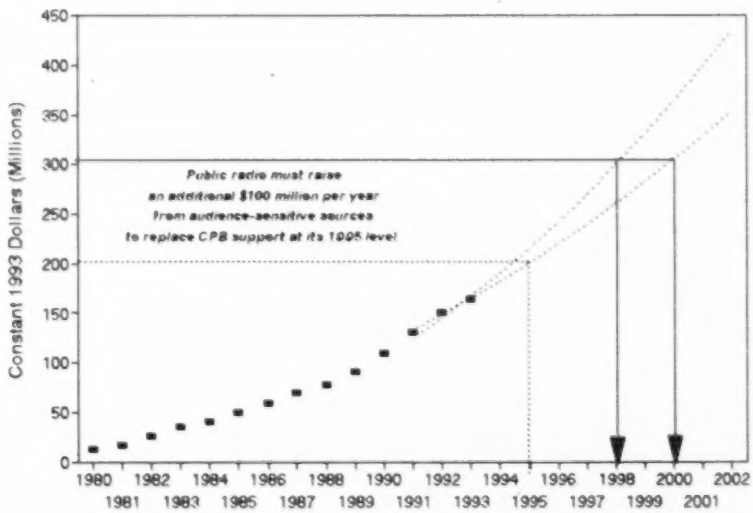
Assumption 1. Federal funds are reduced at a rate that does not exceed public radio's ability to replace them.

Some might argue that responsible government demands immediate reduction in federal support. Others might counter that too zealous a reduction constitutes irresponsible government —one that seriously jeopardizes the far greater investment in public broadcasting made by the American people during the last three decades.

The model upon which this graph is based suggests a four-year "glide path to zero"—one that should allow public broadcasting to remain on an operational plateau while taking its next steps to greater self-sufficiency.

Fiscal Year	Federal Investment
1995	$70
1996	$57
1997	$44
1998	$30
1999	$15
2000	$ 0

If Other Assets Hold Constant, Audience-Sensitive Support May Replace CPB Support in Three to Five Years



Assumption 2. Public radio is able to increase its service to listeners and become more efficient at generating audience-sensitive support. As previously discussed, simple maintenance of these assets isn't sufficient given the magnitude and speed with which lost federal funds must be replaced.

Assumption 3. Other basic assets are at least maintained: infrastructure, such as broadcast, production, and interconnection facilities; talent, both on the air and in management; and funding by local agencies, ongoing direct and in-kind support by licensees, and other sources of non-federal tax-based funding.

Some valuable assets hidden within CPB are widely taken for granted, and they are at risk to the extent that the Corporation is at risk. For instance, CPB currently negotiates and pays copyright fees for all public stations. It funds the development and research for major new programming initiatives.

If CPB is lost, public radio stations will need to aggregate funds and cooperate in other ways to ensure that critical system assets are maintained.

The Fate of "The System" (or Rather, "The System" Redefined)

How relevant are these system projections? Won't some stations drop out? Won't the composition of "the system" change as a result?

Certain stations are more at risk than others from the reduction in federal funds. An undetermined number may be "lost"—the meaning of which might be varied. They may lose significant numbers of listeners and become lesser public services. They may descend into an economic and programmatic slide. They may no longer be able to cooperate with other stations. They may drop memberships or affiliations. They may even drop from the interconnection system.

No-one knows for sure how many stations might be lost. But we have a good idea of their characteristics. One analysis in progress suggests that the 20 percent of the licensees most dependent on CPB funds and least effective at generating audience-sensitive support may be at the highest risk. Together they account for five percent of public radio's reach and only three and one-half percent of its national audience.

From an audience perspective, the public radio "system" that remains will be comprised of stations carrying high visibility, high impact programs already associated with public broadcasting (most of these are national but not all), and/or classical or jazz programs uninterrupted by true commercials (most are local but not all).

The insider's perspective, however, will see a public radio system composed of non-commercial, non-religious stations that broadcast to the general public. In a sense this is no change from today.

But the shift in funding sources will necessarily change the nature of the stations in this system. The "public radio" station of the not-so-distant future will on one hand be more collaborative with other stations (to realize efficiencies), and on the other be more self-reliant on audience-sensitive revenues.

The system that remains will be stronger.

David Giovannoni heads Audience Research Analysis, an independent firm specializing in radio audience research. *The author is indebted to Tom Thomas and the Station Resource Group for their generous sharing of ideas and data for this analysis.*

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